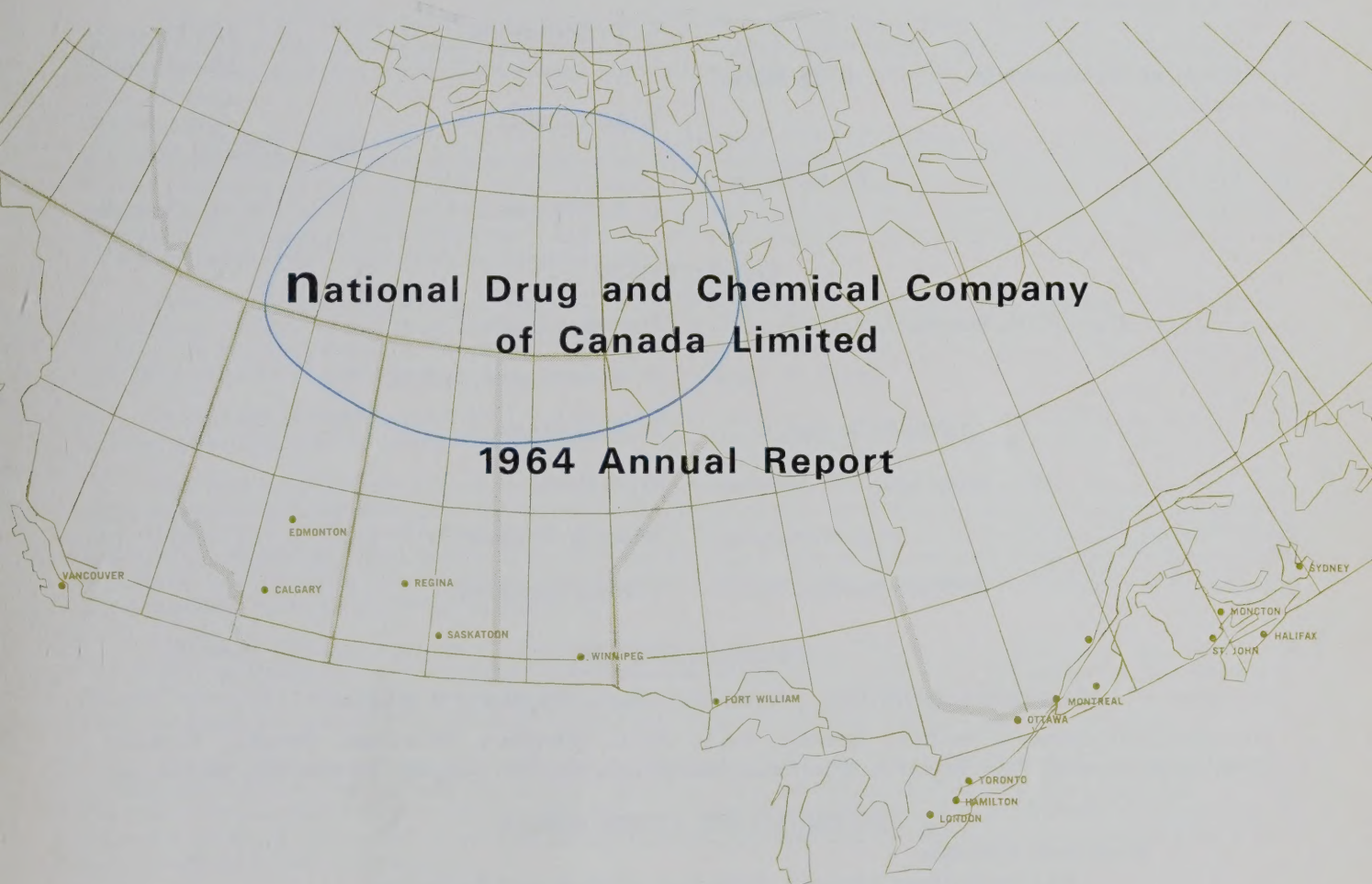
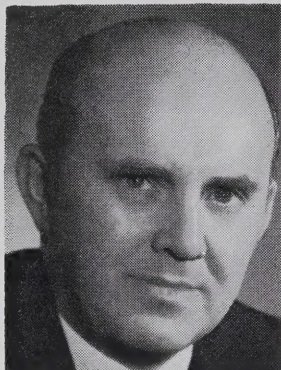


File 8



National Drug and Chemical Company of Canada Limited

OFFICERS



Bertram Loeb

Chairman of the Board
and Chief Executive Officer



Gordon J. Odell

President

L. D. Schoening

Vice President,
Manufacturing

Vice President, Administration
and Secretary

R. B. Haley

Z. M. Climan

Treasurer and
Assistant Secretary

Vice President,
Merchandising

L. M. Goelman

L. A. Robertson

Controller

DIRECTORS

Hon. P. H. Bouffard, M.C., Q.C., LL.D.

Bertram Loeb

Grant H. Day

T. R. McLagan, O.B.E.

Charles Gavsie, Q.C.

C. B. Neapole

Hon. Louis P. Gelinas

G. J. Odell

C. P. Haynes

Ward C. Pitfield

J. William Horsey, LL.D.

Claude Robillard

ORGANIZATION

Head Office: Suite 2222, 1 Place Ville Marie, Montreal 2, Quebec

**Distribution Centres : Halifax, Sydney, Saint John, Moncton, Montreal, Ottawa, Toronto
Hamilton, London, Fort William, Winnipeg, Saskatoon, Regina, Calgary, Edmonton, Vancouver**

SUBSIDIARY COMPANIES

Wholesale Division:

National-Drugs Limited: Winnipeg, Regina and Saskatoon

Alberta-National Drug Company, Limited: Calgary and Edmonton

Manufacturing Division:

Laurentian Laboratories Limited — Montreal

The Dr. A. W. Chase Medicine Company, Limited — Montreal

Agency Division:

Laurentian Agencies Limited — Montreal

Preferred Brands Limited — Montreal

REPORT OF THE DIRECTORS TO OUR SHAREHOLDERS

The year just ended was not without serious problems in many areas of operations. The sum total of the year's results is a loss of \$516,000 despite a modest increase in sales and despite profitable operations in certain areas of Canada. Since the signatures at the end of this report are new to National Drug and Chemical Company shareholders, perhaps a review of the year's events might be in order.

In May, 1964 M. Loeb Limited, Canada's largest wholesale food distributors, acquired effective control of this company and Mr. Bertram Loeb became its Chairman and Chief Executive Officer. In September, 1964 Mr. Gordon J. Odell, formerly Ontario Regional Manager of National Drug assumed the presidency. Other changes in personnel and appointments in various capacities were made and the many problems harrassing this company's growth and profitability were examined in some detail.

We found in many areas that facilities were completely outmoded and should have been abandoned years ago. We further found an excess of personnel in certain branches entirely out of proportion to sales volume. There was an inadequately coordinated merchandising and procurement program at head office. Inventories were excessively high in some areas and the company's accounts receivable policy varied substantially from one city to another. Neither a sense of urgency nor a spirit of enthusiasm prevailed and there appeared to be no short or long-range program for growth and development. The sum total of all these and other situations resulted in a substantial financial loss in operations and a serious decline of the company's image in the eyes of retailers and suppliers.

These are not simple things to overcome in a short period of time. There is much planning necessary, continuous follow-through and some forthright action to be taken immediately. Many changes have already been made and others are in the process. Some indication of what is being done and may be expected during the current year, follows:

A voluntary group program known as A.R.P. (Associated Retail Pharmacists) has been instituted and has met with enthusiastic response from pharmacists wherever introduced. There are now over 500 retail members located nationally in every province except Newfoundland and Quebec and it is expected that this number will grow substantially by the end of 1965. A.R.P. is a franchised retail pharmacy program designed to combine the individual ownership approach with that of aggressive merchandising and procurement by the distributor thereby aiding the pharmacist in his bid for the consumer dollar.

New warehousing facilities have been opened in Saskatoon and Regina during the past year, and London and Sydney warehouses will be in operation within the next six months. All these new distribution facilities plus those yet to be completed in the Maritimes, include the most modern material handling equipment to help reduce operating costs thereby passing on savings to the pharmacists.

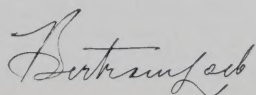
A new manufacturing plant for Laurentian Laboratories, with completely modern facilities, in association with another large manufacturing concern will be in operation in Pointe Claire, Quebec by late 1965.

But above all your company is embarking on an imaginative and progressive policy of personnel development through training seminars, a recruitment program for university graduates and an interchange of information with qualified and knowledgeable individuals of M. Loeb Limited and its associated companies. Stricter disciplines and tighter controls are being instituted in many regions to help restore the company's efficiency to a reasonably high level. It is the belief of management that these and other changes in the field of up-grading personnel and policies will pay valuable dividends in the future.

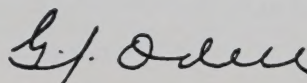
Obviously all these programs will take time and will cost money. We are not unmindful of the tasks ahead nor of the responsibilities we have undertaken. But we feel that we have the worst behind us and have virtually stopped losses where they have been habitually occurring. With the qualification that a number of important and costly problems yet remain to be resolved we genuinely expect fiscal 1965 will be a year free of losses.

For the future we pledge our continued dedication to National Drug and Chemical Company and the principles on which it was founded. There is a continuing and substantially greater need than ever before for the goods and services this company has to offer. Like many other organizations in related fields of distribution of consumer goods, it can operate profitably. To this end your directors and officers are dedicated and we solicit your continued loyalty and support.

On behalf of the Board,



Chairman of the Board.



President.

National Drug & Chemical

AND SUB

CONSOLIDATED BALANCE SHEET

ASSETS

	1964	1963
CURRENT ASSETS		
Cash.....	28,350	30,660
Accounts receivable.....	5,087,136	5,035,360
Inventories — at the lower of cost or net realizable value.....	8,368,262	8,090,978
Income taxes recoverable.....	104,450	—
Prepaid expenses.....	22,958	195,845
	<u>13,611,156</u>	<u>13,352,843</u>
FIXED ASSETS		
Property, plant and equipment — at cost.....	3,760,574	4,423,190
Accumulated depreciation.....	1,917,695	1,921,781
	<u>1,842,879</u>	<u>2,501,409</u>
UNAMORTIZED DEBENTURE DISCOUNT AND EXPENSES.....	<u>59,226</u>	<u>63,724</u>
TRADE MARKS —		
at nominal value.....	<u>1</u>	<u>1</u>
	<u>\$15,513,262</u>	<u>\$15,917,977</u>

SIGNED ON BEHALF OF THE BOARD

Bertsmund

Director

Gordon Odell

Director

Company of Canada Limited

LIABILITIES

AS AT DECEMBER 31, 1964

LIABILITIES

	1964	1963
CURRENT LIABILITIES		
Bank loans and outstanding cheques.....	972,080	1,219,785
Accounts payable and accrued liabilities.....	4,412,202	3,821,922
Income taxes.....	—	90,495
	<u>5,384,282</u>	<u>5,132,202</u>
 LIABILITIES NOT DUE WITHIN ONE YEAR (Note 1).....	 2,233,350	 2,239,750
 MINORITY INTEREST IN SUBSIDIARIES	 1,443,228	 1,404,059
	<u>9,060,860</u>	<u>8,776,011</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (Note 2).....	2,476,175	2,476,175
RETAINED EARNINGS	3,976,227	4,665,791
	<u>6,452,402</u>	<u>7,141,966</u>
	<u>\$15,513,262</u>	<u>\$15,917,977</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

March 5, 1965

We have examined the consolidated balance sheet of National Drug and Chemical Company of Canada Limited and subsidiaries as at December 31, 1964 and the consolidated statement of income and expenditure and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statement of income and expenditure and retained earnings, when read in conjunction with the notes appended thereto, are properly drawn up so as to exhibit a true and correct view of the consolidated state of the affairs of the companies as at December 31, 1964 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

M. C. Donald, Currie & Co.
Chartered Accountants

National Drug & Chemical

AND SU

CONSOLIDATED STATEMENT OF INCOME AND EXPENDITURE AND RETAINED EARNINGS

For the Year Ended December 31, 1964

	1964	1963
(LOSS) PROFIT FROM OPERATIONS		
before the following.....	(26,766)	705,067
Depreciation of fixed assets.....	175,592	170,289
Remuneration paid to executive officers of parent company.....	54,500	68,733
Legal fees.....	29,347	18,697
Directors' fees.....	9,700	13,300
Interest on long-term debt.....	132,995	72,552
Amortization of debenture discount and expenses.....	4,498	2,997
	406,632	346,568
	(433,398)	358,499
GAIN ON DISPOSAL OF FIXED ASSETS.....	89,131	63,836
	(344,267)	422,335
PROVISION FOR INCOME TAXES — SUBSIDIARIES.....	91,721	323,428
(LOSS) PROFIT BEFORE MINORITY INTEREST.....	(435,988)	98,907
MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES.....	79,828	66,603
NET (LOSS) PROFIT FOR THE YEAR.....	(515,816)	32,304
RETAINED EARNINGS — BEGINNING OF YEAR.....	4,665,791	5,030,887
Transfer from reserve for contingencies.....	—	250,000
Transfer from capital surplus.....	—	407,970
	4,149,975	5,721,161
Dividends — preferred shares.....	51,041	54,930
— common shares.....	122,707	322,943
Excess of cost of acquisition of shares in subsidiaries over book value.....	—	435,074
Inventory adjustment applicable to prior years.....	—	148,330
Expense adjustment applicable to prior years.....	—	94,093
	173,748	1,055,370
RETAINED EARNINGS — END OF YEAR.....	\$3,976,227	\$4,665,791

Company of Canada Limited

LIABILITIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1964

1. LIABILITIES NOT DUE WITHIN ONE YEAR

NATIONAL DRUG AND CHEMICAL COMPANY OF CANADA LIMITED

5¾% Series "A" serial debentures maturing in annual instalments of \$100,000 commencing May 1, 1966.....	500,000
6% Series "A" sinking fund debentures maturing May 1, 1983 with sinking fund payments to commence in 1971.....	1,500,000
	2,000,000

THE DR. A. W. CHASE MEDICINE COMPANY, LIMITED

6% sinking fund bonds maturing August 1, 1973 with sinking fund payments equal to 25% of the consolidated annual earnings of The Dr. A. W. Chase Medicine Company, Limited	
Authorized and issued.....	421,000
Redeemed to date.....	187,650
	233,350
	\$2,233,350

The 6% sinking fund bonds of The Dr. A. W. Chase Medicine Company, Limited were called for redemption in March 1965 subsequent to the sale for \$210,900 of land and buildings having a net book value of \$167,185. The resulting profit will be reflected in 1965.

2. CAPITAL STOCK

The capital stock of the company consists of the following -

Authorized —	1964	1963
244,854 cumulative 60¢ convertible preferred shares of \$5 par value		
750,000 common shares of no par value		
Issued and fully paid —		
244,854 preferred shares		
160,539 preferred shares converted to common shares (including 3,033 during 1964)		
84,315 preferred shares.....	421,575	436,740
410,920 common shares.....	2,054,600	2,039,435
	\$2,476,175	\$2,476,175

On liquidation, dissolution or winding-up of the company, each preferred share entitles the holder to receive \$7 out of the assets of the company before any distribution to the holders of any other shares of the capital stock of the company.

Under the terms of the Trust Deed securing the outstanding debentures, the company may not pay dividends on common shares

- (i) in excess of the aggregate of Consolidated Net Earnings as defined in the Trust Deed, from January 1, 1963 plus \$400,000,
- (ii) that would reduce Consolidated Net Current Assets as defined in the Trust Deed to less than \$6,000,000.

Under these terms the company is currently precluded from paying dividends on its common shares.

The company has reserved the following common shares —

- 84,315 common shares for issuance against the conversion privilege of cumulative 60¢ convertible preferred shares,
- 100,000 common shares for issuance against the exercise of an option granted to M. Loeb Limited to purchase common shares at \$14.50 per share before June 15, 1967, and
- 25,000 common shares under a plan to grant stock options to officers and senior employees of the company.

3. LEASE COMMITMENTS

Under long-term leases in effect as at December 31, 1964, the parent company is obligated to pay annual rentals aggregating \$221,000, including \$40,000 for retail facilities subleased to druggists.

4. EMPLOYEES' RETIREMENT PLAN

The parent company is obligated to make certain payments over a period of 25 years under the employees' retirement plan. Because of recent changes in the federal government's old age security benefit arrangements and contemplated changes in the plan, the exact amount of the company's obligation, which could be substantial, is unknown at the present time.

National-Drugs Limited

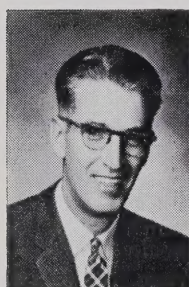
RETAIL DIRECTORS



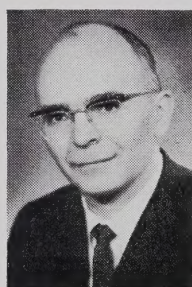
G. M. Gilhuly
Vice-President



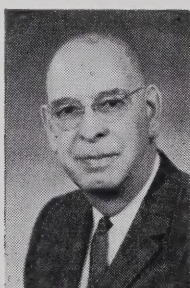
E. R. Neely



W. A. Milne



J. C. Bassey



C. D. Brown
Director Emeritus

National-Drugs Limited operations in Manitoba and Saskatchewan continued to show increases in both sales and profitability during 1964.

The continued substantial forward movement in this division of the company can be laid to several factors: increased support of the company by the majority retail shareholders in the two provinces; new and stronger dealer assistance and promotional programs within the division itself; lower operating costs, increased efficiency and an improved competitive position as programs instituted or co-ordinated by the National Drug and Chemical Management in Montreal take increasing effect.

New buildings now in operation in both Saskatoon and Regina, in addition to an existing modern distribution centre in Winnipeg, are expected to permit further increases in volume at lower costs as the full benefits of the technological improvements are realized.

An important factor in 1964 operations was the introduction of the A.R.P. franchising program in all three prairie distribution centres. A.R.P. is now installed in each area and its growing advertising, merchandising and retail sales development programs will become a major factor in supporting the profitable independence of the retail pharmacist.

Training of personnel was an equally important segment of the 1964 modernization program and key personnel actively participated in the full management development and sales training seminars organized by the parent company. These activities are scheduled to continue in 1965.

OFFICERS AND DIRECTORS

G. J. Odell	President
C. M. Peel	Vice-President
W. J. Robertson	General Manager
J. A. MacAulay, Q.C.	Treasurer
R. B. Haley	
L. D. Schoening	
L. A. Robertson	
J. H. Webster	

SECRETARY

W. W. Harrison

National-Drugs Limited

Head Office: Winnipeg

Distribution Centres:

Winnipeg • Regina • Saskatoon

National Drug & Chemical Company of Canada Limited

AND SUBSIDIARY COMPANIES

1964 — A Year of Modernization and Consolidation

Modernization and consolidation of facilities, programs and personnel were the key to operations of your company during 1964.

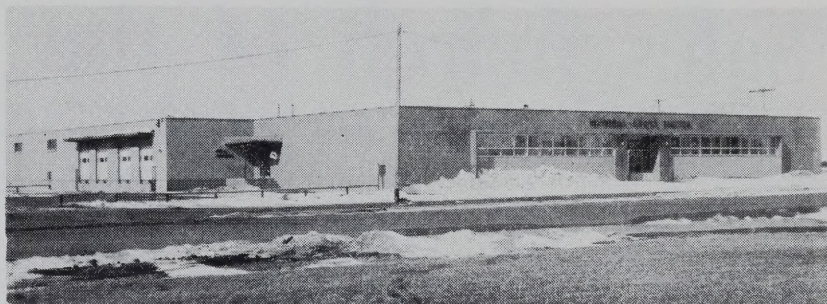
Strong, active programs have been developed and are now underway to offset and overcome weakness in the organizational and operational structure of the company uncovered by your present management. Although the costs associated with these moves are reflected severely in 1964 operating results, the beneficial effects are expected to produce growing results starting in 1965.

Programs instituted or now in preparation include: new distribution centers in Sydney, Halifax, Montreal, London, Regina and Saskatoon; plant modernization in all centres to bring equipment up to modern levels of operating efficiency; centralization, modernization and standardization of accounting systems and procedures, collections, and payables; management and staff assessment and extensive training and development programs, using the most modern methods and techniques; centralized, co-ordinated sales development, merchandising, promotion, buying and inventory; aggressive and active retailer advertising, promotion and management assistance.

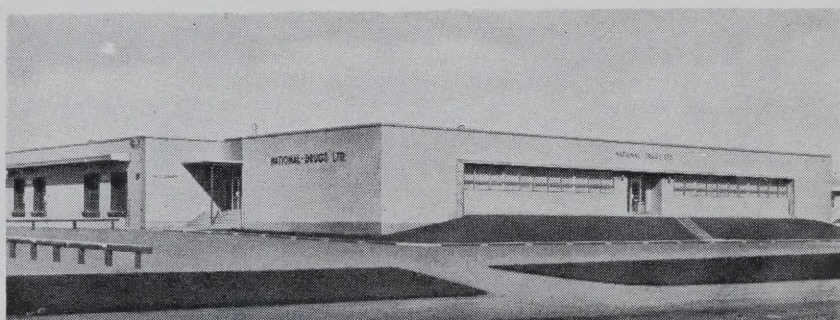
Plans for modern new facilities and expansion of markets for our manufacturing subsidiary Laurentian Laboratories Limited have been approved.

Laurentian Agencies Limited has been moved to new modern facilities and emphasis has been placed on an aggressive sales expansion program. Preferred Brands Limited has been reactivated to specialize in regional distribution of a broad classification of food and drug products across Canada.

These and many other activities are an investment in the future — an investment we believe will strengthen your company.



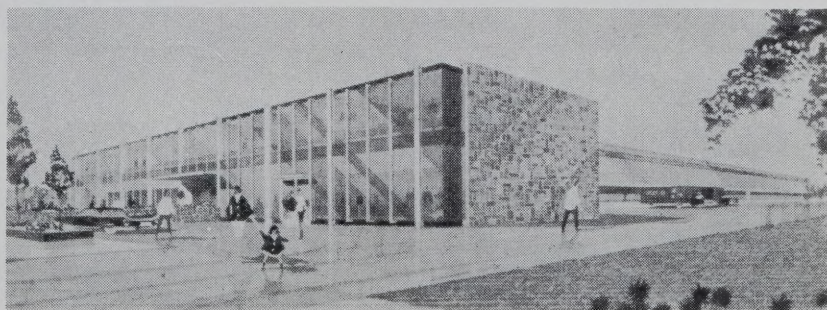
National-Drugs Limited — new Regina building



National-Drugs Limited — new Saskatoon building



Typical of the new, modern refrigeration and order filling installations being made in branches, coast to coast



New building — National Drug, Montreal branch and Laurentian Agencies Limited head office

National Drug's shock troops

REPRINT FROM TORONTO
STAR, SEPTEMBER 12, 1964

Sales march of the 'volunteers'

By R. COCHRANE
Star Staff Writer

Life begins at 59 for big National Drug and Chemical Co.

Its aim: To revolutionize the Canadian wholesale and retail drug business.

National, which will celebrate its 60th birthday next year, shows these results so far:

A voluntary group called Associated Retail Pharmacists with 108 member stores in the Edmonton and Calgary area where the roundup began, just over 100 in Manitoba and Saskatchewan, 120 in the Atlantic

Provinces, and 10 in Ontario where the "attack is just starting."

"Attack" is the word here; the whole National Drug operation sounds like a military campaign.

Battle strategy was laid down by the highly successful Bertram Loeb, who became chairman and chief executive officer shortly after acquiring effective control of National Drug in May

APPOINT STAFF

Loeb is no raw recruit in the wholesale-retail business. He's president of the fast-moving M. Loeb Ltd., supplier to 340 franchised IGA retail food stores, and

more than 4,000 other non-exclusive retailers.

Loeb immediately appointed his own officer corps, spearheaded by Field General (President) Gordon Odell.

Talking to Odell on the telephone is like getting a breathless, in-person description of a key skirmish from the guy who's directing it.

He uses words like "assault" and "beachhead" and gives you the impression he's trying to be co-operative, but can't reveal secrets.

"We don't want to give our competition any solace," he explains.

National is rapidly sew-

ing up the Prairies and the Maritimes, but the "real attack" is just getting under way in Ontario—Toronto to be specific.

The 10 members they already have in Ontario are in Ottawa. Odell refers to the Toronto campaign as a "paratroop drop," and hopes at least 150 retail druggists from the Metro area join A.R.P.

ONTARIO MARKET

"Then we hope to move into the other lush territories of Ontario. I don't know where we'll hit first—maybe Hamilton, maybe London."

National doesn't want unconditional surrender. "We

don't want every drug store to join A.R.P.," Mr. Odell says. "We want to maintain some degree of exclusivity."

As for Quebec, National has no immediate battle orders. "There are a lot more co-operative groups already operating there," Odell says. "We're going to have to win back a lot of friends there."

Membership in A.R.P. is a fairly loose arrangement. The retailer signs a contract with National which allows either party to terminate the deal on 30 days notice.

GOOD STORE

"To join," says Odell, "the retailer only has to be acceptable to us. He has to have a good, solid store, and an attractive layout. In some cases we might insist on some alterations."

But A.R.P. is not aiming at complete standardization. "We want to protect the individual store's personality."

He adds: "We think there's room in our environment for the small, individual retailing influence."

Advantages to the franchised member? He'll benefit from mass advertising and inventory control. He'll also benefit National hopes, from increased sales.

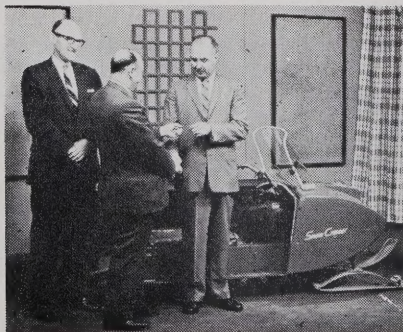
National will also start a retail clerk training program, in which instructors will travel to various regional centres to conduct short courses in drug store salesmanship.

Customers will soon see evidence of A.R.P. The initials will dominate a lighted exterior sign on most member stores, and display stands inside will carry current promotional merchandise to tie in with advertisements.

"We're very optimistic about the outlook for the association," says General Odell. "We have every reason to believe this is the right course of action."



Cornerstones of the A.R.P. promotional program are the store identification signs and the high impact merchandising units which tie in with traffic building advertising.



High impact A.R.P. advertising brings results in Nova Scotia (left) as an A.R.P. pharmacy's customer wins a snow cruiser in an A.R.P. contest, and at right as over 100 parents and children win free flights over Winnipeg in another A.R.P. contest.



**A new, dynamic
concept in drug
merchandising**

Most dynamic evidence of the new aggressive attitude at National Drug has been the development and rapid expansion of the company's A.R.P., Associated Retail Pharmacists, franchising program.

As a wholesale distributor National Drug is vitally linked with its retail customers — their success to a large degree will determine our success.

A.R.P. is the first major, comprehensive program of overall retail merchandising and management assistance ever to be offered to retail pharmacists in this country on a coast to coast basis. A.R.P. is designed to insure the success of the independent retail pharmacist.

A.R.P. joins merchandising minded, independent retail pharmacists together, through the facilities of the National Drug co-ordinating staff, into one powerful country wide merchandising organization. The individual A.R.P. franchise holder retains his identity as an independent businessman, but adds the prestige and sales impact of association with the coast to coast group of fellow independent businessmen.

A.R.P. actively co-ordinates manufacturers co-operative promotional funds with the individual local needs of each area's A.R.P. members. Through A.R.P., local pharmacists are able to put media they previously could not afford (radio, TV, newspapers), to work for them competitively.

Cornerstones of the A.R.P. promotional program are the store identification signs and the high impact, impulse sale creating merchandising units tied in with intensive traffic creating advertising programs.

Keynote of the A.R.P. concept is combined, co-ordinated, competitive promotion. Extra features planned also include store design assistance, management aid programs, exclusive brand or private label merchandise and access to all of the modern management and merchandising knowledge and assistance available to chain competitors, without loss of independent ownership.

Commenting on the future of independent retailing, the Harvard Business Review stated:

"The extent to which the small retailer will once again become a major competitive force will depend on the vigor and aggressiveness with which he accepts the challenge and develops programs appropriate to his given line of business. This will require a philosophy of innovation rather than of imitation and the full co-operation of all organizations that stand to gain from this development. Obviously, not all small retailers will participate in this opportunity but for those who do, a bright future lies ahead."

National Drug is firmly committed to the belief that through A.R.P. lies the way to expansion and development for our company and our retail customers.

Our Symbol of Service

Since ancient times symbols have been used to depict the character of organizations, heraldic groups and even countries.

Today, symbols have assumed increased importance in business, and are widely used to illustrate a company's identity and to leave in the minds of the public a clear impression of that company's qualities.

In addition to incorporating the basic ingredients of modern design, National's new symbol represents several factors.

The 'N' stands for the National Drug Group of Companies. The five spheres suggest molecular structure—representing the retail drug trade and pharmaceutical supply industry which we serve. Finally, the symbol has a feeling of movement, illustrating our main role of distribution.

In more specific terms, the five spheres represent our responsibilities to:

- *The retail pharmacists across Canada*
- *The leading manufacturers who rely upon us for their distribution.*
- *The general public who depend on the quality of our manufacture.*
- *Our shareholders, whose financial support is essential to our success.*
- *Our employees whose well being is our continuing concern.*

Our views regarding these five responsibilities are explained fully at the right.



Our Policy

As Canada's largest distributors to the retail drug trade, we are pledged to provide the highest quality service and products consistent with the requirements of the modern pharmacy.

It is our duty to provide the many leading manufacturers, who rely on our nation-wide organization for their distribution, with the most prompt and efficient handling of their products.

As manufacturers we assume the responsibility of producing and distributing only those products that meet the highest quality standards.

In continually seeking to improve our service in all areas, we are always mindful of the interest of our shareholders.

We also recognize the important role played by our employees upon whom the efficient operation of our business finally rests.

National Drug and Chemical Company of Canada Limited
and subsidiary companies